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FISCAL IMPACT STATEMENT

LS 6381

BILL NUMBER: SB 257

NOTE PREPARED: Dec 6, 2012

BILL AMENDED:

SUBJECT: Sales Tax Holiday.

FIRST AUTHOR: Sen. Merritt

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a Sales Tax exemption for school instructional materials that are purchased during the first weekend in August and the second weekend in January, if the sales price of the item does not exceed \$500.

Effective Date: Upon passage.

Explanation of State Expenditures: *Department of State Revenue (DOR)* - This bill will increase the administrative costs of the DOR. The DOR will need to amend Sales Tax forms and modify the Sales Tax processing system. The bill also allows the DOR to adopt administrative rules to implement the Sales Tax holiday. It is estimated that the provisions of this bill can be implemented within the DOR's existing level of resources.

Explanation of State Revenues: *Summary* - This bill could reduce Sales Tax revenue by an estimated \$1.4 M to \$8.9 M in FY 2014 and by \$1.5 M to \$9.3 M in FY 2015. Revenue loss from this bill depends on the volume of the planned purchases of school instructional materials in August and January that are shifted into those four days because of the temporary Sales Tax exemption.

Sales Tax revenue is deposited as follows: 99.848% in the state General Fund, 0.123% in the Commuter Rail Service Fund (CRSF), and 0.029% in the Industrial Rail Service Fund (IRSF).

Impact on Funds		Low (in millions)		High (in millions)	
Fund	Distribution	FY 2014	FY 2015	FY 2014	FY 2015
General Fund	99.848%	-\$1.3979	-\$1.4977	-\$8.8865	-\$9.2859
CRSF	0.123%	-0.0017	-0.0018	-0.0109	-0.0114
IRSF	0.029%	-0.0004	-0.0004	-0.0026	-0.0027
Total	100%	-\$1.4	-\$1.5	-\$8.9	-\$9.3

Background Information - August and January are the peak sales months for school instructional materials. This is driven largely by students going to college and purchasing textbooks, workbooks, and reference books. The bill makes those items Sales Tax-exempt for two days in August and two days in January.

According to the National Center for Education Statistics, the average cost of books and supplies for a full-time student in Indiana was \$1,100 in 2010. Indiana had about 320,000 full-time students and 145,000 part-time students enrolled at institutions of higher education in 2010. The estimate in the table above assumes 89% of those students will purchase textbooks. Based on seasonal enrollment patterns, 90% of textbook sales will occur in August and January, and 91% of the sales will take place prior to the beginning of classes.

The price elasticity of demand for textbooks is the basis for the lower limit estimate. Research has found that textbook sales are not very responsive to price changes. The lower limit estimate assumes that the price elasticity for textbooks is -0.2, which means a 10% decrease in price will cause a 2% increase in textbooks purchased. Removing the Sales Tax is estimated to reduce the consumer's total cost by 7%, which would lead to a 1.4% increase in textbook sales on the tax-exempt days under the bill.

Research on the impact of Sales Tax holidays on purchasing patterns is the basis for the upper limit estimate. The research suggests consumers will shift planned purchases to take advantage of a Sales Tax exemption. According to a recent study, the percent of shifted purchases can range from 37% to 90%, depending on the items that are exempt. Given the price inelasticity of college textbooks, the upper limit estimate assumes an additional 37% of the monthly sales will shift into the four tax-exempt days.

This analysis primarily focuses on the sales of college textbooks. College students would be the largest segment to benefit from this bill. The textbooks provided for primary and secondary education are usually purchased in bulk by the institutions and rented to the students. Those purchases are already tax-exempt. Families that home school their children and private school students who purchase textbooks would also benefit from this bill. The cost and method of acquiring textbooks varies considerably for these populations. The revenue loss could be greater to the extent that they purchase textbooks on the specified days.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues will be reduced to the extent that a local unit receives funds from the CRSF or the IRSF.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Local units that receive Sales Tax revenue.

Information Sources: National Center for Education Statistics, Integrated Postsecondary Education Data System. Cole, Adam J. *The Fiscal Impact of Sales Tax Holidays*, May 16, 2009. Koch, James V. *An Economic Analysis of Textbook Pricing and Textbook Markets*, September 2006. Book Industry Study Group, *Student Attitudes Toward Content in Higher Education*, February 21, 2012.

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